

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Fourth Quarter of 2000 to the Fourth Quarter of 2004

The current outlook for Idaho's economy is softer than the one published in January. In the prior forecast, Idaho nonfarm employment was expected to grow by at least 2.0% annually through 2004. Idaho nonfarm employment is now projected to grow by less than 2.0% during the next two years before picking up speed in 2003 and 2004. By 2004, the forecast is for 605,443 jobs in Idaho. This is roughly 7,100 fewer jobs than had previously been anticipated.

The weaker employment picture reflects a combination of factors. Several key industries have announced layoffs since the last forecast was prepared. This has lowered the starting point for the current forecast. For example, total Idaho employment is about 1,300 lower in the first quarter of 2001 compared to the January forecast. All of this reduction is in the goods-producing sector of the economy. Manufacturing employment is down by about 1,400. Durable goods manufacturing, hampered by setbacks in the lumber and woods producing and machinery sectors, accounts for the largest reductions. Construction employment starts out 2001 with over 300 fewer jobs than had previously been forecast. Mining employment is virtually unchanged. Services-producing employment is actually up by almost 400.

Idaho personal income is also lower in the first quarter of this year. Interestingly, this reduction is not the result of lower employment. While employment is indeed lower than previously forecast, personal income is boosted by an increase in the average annual wage rate. As a result, the wage and salary payments component of personal income is actually \$80 million higher in the first quarter of 2001. It should be noted that the negative impact of lower employment eventually overtakes the positive impact of the wage rate. While the wage and salary payment component is higher in the first quarter of this year, all other components of personal income are lower.

The outlook for Idaho's economy is generally lower than the previous forecast through 2003. Idaho nonfarm employment is nearly 8,800 lower in 2003. In 2003, goods-producing employment is about 3,000 less than had been previously forecast, while services-producing employment is off nearly 5,800. Not surprisingly, real Idaho personal income shows a similar pattern. It is down \$592 million in 2003. This reflects the slower growth of the U.S. economy. DRI previously estimated that real GDP would increase faster than its potential of 3.5% in each year of the forecast. In the current forecast real output growth is below its potential both this year and next.

Idaho's economy shows signs of closing the gap between the current and previous forecast in 2004. However, this difference is not eliminated. Idaho nonfarm employment is still roughly 7,100 lower in 2004 than had been forecast in January, while real personal income is down \$381 million.

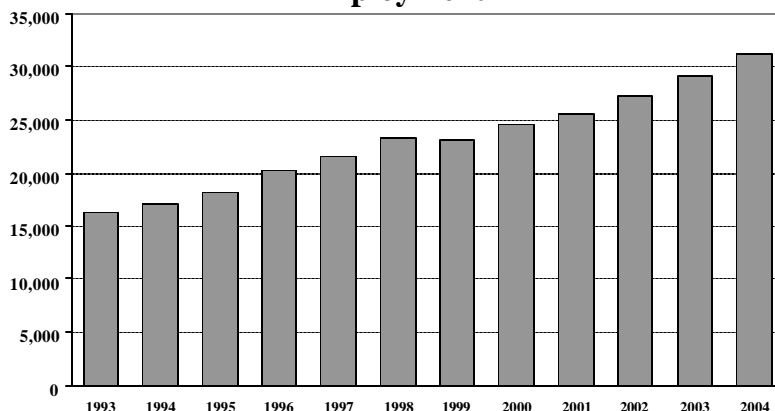
It is worth noting that although the outlook for Idaho's economy has been scaled back when compared to January's forecast, it is similar in two important ways. First, while Idaho's economy is expected to experience slower growth, it is expected to continue growing. Second, Idaho is anticipated to grow faster than the national economy.

SELECTED IDAHO ECONOMIC INDICATORS

Electrical and Nonelectrical Machinery:

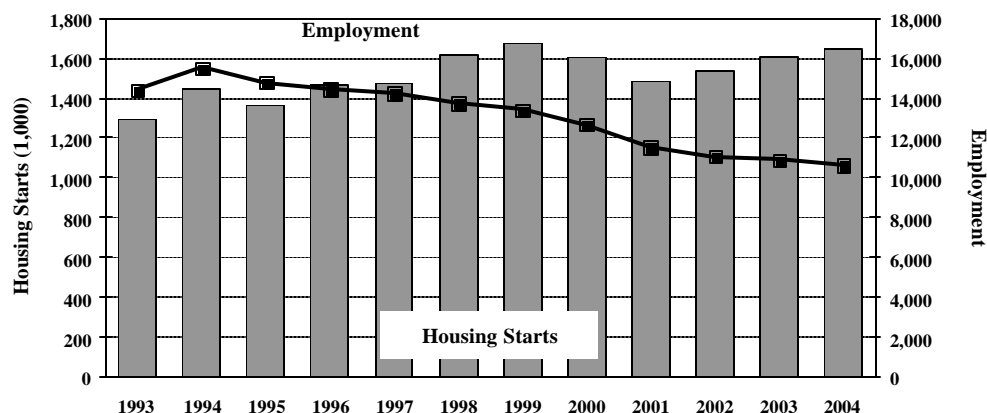
The softer outlook for business fixed investment over the next two years and the large number of announced high-tech job cutbacks in Idaho this winter have warranted a scaling back of expectations for the Gem State's largest manufacturing sector. In the January 2001 *Forecast* it was reported that real business fixed investment would slow noticeably in 2001 and 2002 before picking up some steam in 2003 and 2004. In the current *Forecast*, real business investment growth is much weaker in 2001 and 2002 than had been previously projected and slightly weaker in 2003 and 2004. As a result, the expected production of electrical machinery and electrical components over the next four years has also been lowered. In the January 2001 *Forecast*, electrical machinery production was anticipated to average 13.2% annual growth from 2001 to 2004, while electrical component output was expected to grow 18.6% per year over the same period. In the current *Forecast*, electrical machinery production advances 11.5% annually and electrical components increase 16.2% per year. Since the last forecast was prepared, several of the state's largest high-tech employers have announced cutbacks. Micron Electronics, a manufacturer of personal computers, reduced its employment by about 350. This move reflects its decision to get out of manufacturing and focus on internet services. Other companies felt the sting of the overall industry slowdown. MCMS cut about 400 jobs this winter as a result of low sales. MCMS supplies products to industry giants such as Cisco Systems. SCP Global Technology makes semiconductor manufacturing equipment. Lower sales caused it to reduce its work force by 150. Jabil Circuit, Incorporated is estimated to have laid off about 100 employees. This reduction comes as somewhat of a surprise because this company planned to double its manufacturing space in response to anticipated industry growth. This expansion would have added 700 new jobs over the next few years. The status of this expansion is clouded by the recent cutbacks. Company-wide reorganizations have resulted in job losses at Hewlett-Packard's Boise site. In March 2001, 65 jobs were lost. This April, the company announced that it was reducing its management ranks. It is not known at this time what the impact will be on the company's Boise operations. Not all the news was bad, however. Micron Technology is still on course to add 500 more jobs, most of which will be in research and development. Idaho's electrical and nonelectrical machinery sector is forecast to gain about 6,700 jobs over the next four years. While this is more than all other manufacturing sectors combined, it is about 1,300 less than the previous forecast of nearly 8,000 electrical and nonelectrical machinery jobs added by 2004.

Idaho Electrical & Nonelectrical
Employment



Lumber and Wood Products: Employment in Idaho's lumber and wood products sector is expected to continue to slide over the forecast period. This sector is in the midst of a retreat that began in 1995. This sector's job base shrank by 5.4% in 2000, its largest year-over-year decline during the current downturn. Last year's performance reflects an unfortunate combination of negative factors. First, falling product prices plagued this industry through most of the year. These softening prices forced many Idaho mills to curtail their operations. Potlatch Corporation temporarily reduced payrolls by 300

Idaho Lumber & Wood Products Employment and U.S. Housing Starts



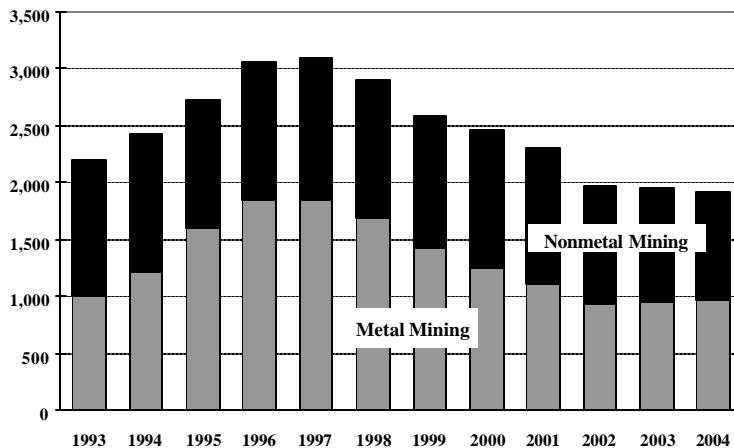
Sources: Standard and Poor's DRI and DFM

in June 2000. The company also laid off 21 workers at its St. Maries' plywood plant. In July 2000, Regulus Stud Mill's employment fell from 100 to 15 workers. That same month, Louisiana-Pacific shut down its Chilco sawmill and Sandpoint finishing plant, affecting 145 employees. While most of these layoffs were temporary, some were permanent. Potlatch

Corporation let go of 140 salaried workers last summer. Crown Pacific closed its 150-employee Coeur d'Alene mill indefinitely in late July 2000. Potlatch shuttered its Jaype Mill near Pierce in August 2000, a move that cost 215 jobs. Unfortunately, a new round of layoffs were announced this winter. Boise Cascade Corporation plans to permanently shutdown its Cascade, Idaho sawmill and close most operations at its Emmett, Idaho plant. Eighty employees at the Cascade site will lose their jobs, while another 275 jobs will be lost in Emmett. Potlatch Corporation in Lewiston is cutting about 125 jobs from its pulp, paperboard, and tissue operations. Woodgrain Millwork in Fruitland, Idaho eliminated a shift (about 40 jobs) this January as a result of a downturn in the manufactured home business. Other reductions have taken place, but they should not be permanent. In February 2001, 300 employees at Potlatch Corporation's Clearwater Lumber Mill were temporarily idled. It appears that low prices may be around a little longer. Part of the reason for this is that U.S. housing starts should decline 7.5% this year. But demand is not the only factor causing lower prices. This industry is awash in supply thanks to excess capacity. One estimate shows the industry is already geared up to produce 20-25% more lumber than is being consumed in North America and Asia. Even if demand were stronger, this sector faces supply challenges. Most notably, it will be haunted by the uncertainties concerning timber supplies from federal forests. Another concern is what impact the expiration of the Softwood Lumber Agreement the U.S. has with Canada will have on supplies. Domestic producers fear Canadian lumber will flood into the U.S. Another concern is high electricity prices. For example, Bennett Lumber officials have warned workers that large electric rate increases could curtail operations at the company's Princeton and Clarkston mills. In light of these factors, it does not appear that this sector's job picture will improve in the near future. In fact, Idaho lumber and wood products employment is expected to fall 9.1% in 2001, 4.1% in 2002, 1.5% in 2003, and 2.5% in 2004.

Mining and Chemicals: Like the rest of the state's resource-based industries, mining and chemicals are facing challenging times. After peaking at just under 3,100 jobs in 1997, employment in the mining sector has declined in each year since then. Most of this reversal reflects the negative impacts lower commodity prices have had on the metal mining component of this sector. Specifically, its employment decreased from 1,848 in 1996 to 1,243 in 2000. Unfortunately the slide is not over. The latest blow to this industry came this winter when the Sunshine Mine closed. While low prices for its output has bedeviled the mining industry, it was not the reason for this closure. The Asarco smelter in East Helena, Montana closed in February of this year, leaving Sunshine Mine without a place to send its silver concentrate. Over 150 jobs at the mine will eventually be lost. With Sunshine Mine closed, only

Idaho Mining Employment

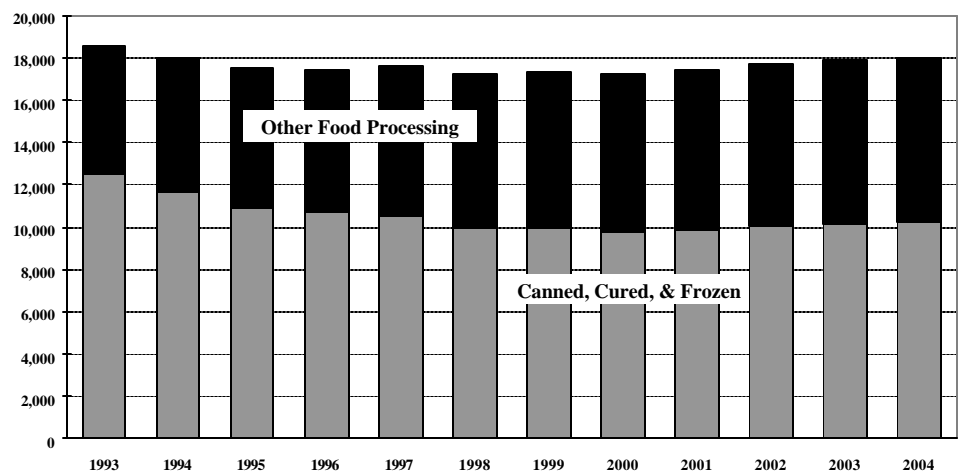


Hecla Mining's Lucky Friday Mine and Coeur Silver Valley Resource's Galena Mine remain in operation in Idaho's historic Silver Valley. Mining cuts were not restricted to northern Idaho, however. Thompson Creek Mining Company in Custer County laid off 65 workers in January 2001, but remains in operation. Kerr-McGee closed its Soda Springs vanadium and phosphate plant due to the low price of vanadium. About 20 workers lost their jobs at the Pocatello Astaris (formerly FMC) plant. The company shutdown two of its four furnaces because of high electricity costs. Given the subdued outlook for the U.S.

economy over the next couple of years, Idaho mining employment is expected to drop from 2,296 in 2001 to 1,917 in 2004. Chemical employment is expected to fare slightly better. Bolstered by an anticipated stabilization of the farm sector, chemical employment should go from 2,274 in 2001 to 2,606 in 2004.

Food Processing: Idaho's dairy industry has thrived in recent years. Idaho is the nation's sixth largest producer of milk. The state's dairy herd increased from 179,000 milk cows in 1990 to 318,000 cows in 1999. The expansion of the herd and higher output per cow caused milk production to climb from about 3 billion pounds to nearly 6.5 billion pounds over this period. The value

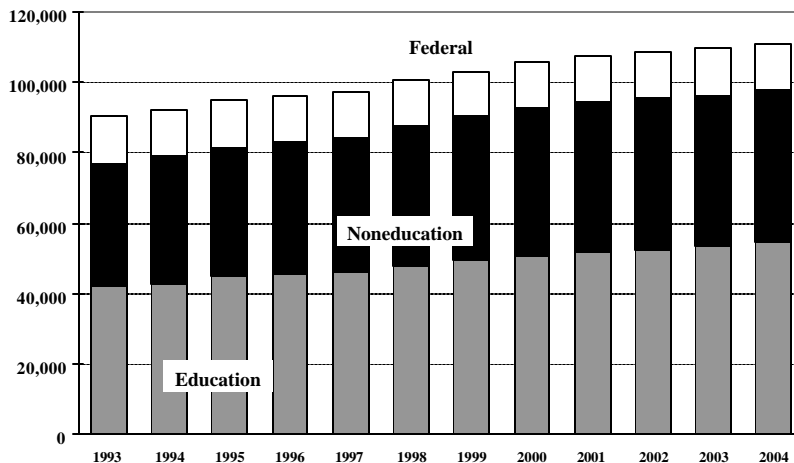
Idaho Food Processing Employment



of the milk produced rose from \$360 million in 1990 to about \$840 million in 1999. Most of the larger dairies are located in the Magic Valley. The state's milk processing industry has expanded along with its dairy herd. From 1995 to 1999, the whole milk equivalent used in Idaho manufactured products jumped over 40.0%, from 3.8 billion pounds to 5.3 billion pounds. Most of this was used to produce American cheese. Glanbia, Inc. is the largest dairy processor in Idaho. It employs over 400 people and has over \$400 million in sales per year. Glanbia, Inc. recently completed a \$33 million expansion to its Gooding cheese processing plant that can process six million pounds of milk per day. Land O' Lakes also completed a huge expansion to its feed-processing plant in Gooding. The Salmon Valley Cheese Factory plans to produce 10 million pounds of cheese annually, and production could expand further in the near future. Suprema Specialties of New Jersey purchased the Snake River Cheese Plant near Blackfoot. Beatrice Cheese had been operating the plant, but stopped production late last year. Suprema took over operations on January 1, 2001. The plant employs 45 workers and processes milk

from 450 dairies. Idaho food processing employment should advance 0.9% in 2001, 2.0% in 2002, 0.8% in 2003, and 0.7% in 2004.

Idaho Government Employment



Federal, State, and Local Governments:

The expected slower growth of the Gem State's population should reduce the pace of expansion for Idaho's state and local government employment sector. The link between population and government employment is statistically significant and can be seen by reviewing historical data. Idaho's population rose from 1,006,749 in 1990 to 1,293,953 in 2000. This 28.5% jump in population made Idaho the decade's fifth fastest growing state. U.S. Census Bureau estimates show

that most of this change resulted from an influx of new residents. This is consistent with the historical record that huge population increases are fueled by in-migration. This in-migration, in turn, reflects favorable economic conditions in Idaho compared to the rest of the nation. The 1990s provide a classic example. Hamstrung by the recession, U.S. nonfarm employment shrank by nearly 1.0% from 1990 to 1992. Idaho nonfarm employment advanced over 8.0% over this same period. The Gem State quickly appeared on the economic radar screens as an oasis of opportunity. As a result, a surge of migration hit Idaho in the first half of the 1990s. In each of the three years from 1992 to 1994, net migration was over 20,000. This helped the state's population grow by about 3.0% in each of those years, which was nearly three times the nation's pace. The rapid rise in population strained the state's public infrastructure. In response to these pressures, Idaho state and local government employment advanced over 3.5% annually during the first half of the decade. Since then the gap between U.S. and Idaho economic growth has narrowed. This has caused net migration into Idaho to taper off recently to about half of its mid-1990s peak. This helped to slow Idaho state and local government employment growth. While cooling population growth has had an impact, another factor has also come into play. Idaho law that limits local government budgets has also reduced employment growth. Idaho state and local government employment is forecast to increase 1.9% in 2001, 1.2% in 2002, 1.1% in 2003, and 1.3% in 2004. Continued efforts to corral federal government spending do not bode well for Federal government employment in Idaho. While severe cuts are unlikely, neither are huge gains. On balance, this component's employment should remain relatively flat. Specifically, the federal employment in the Gem State should be 12,993 in 2001, 13,172 in 2002, 13,170 in 2003, and 13,187 in 2004.

Services-Producing Industries: The outlook for the state's huge services-producing sector has been downgraded since the last forecast. This has a noticeable impact on the overall employment forecast because the services-producing sector alone accounts for about 80% all nonfarm jobs. One of the reasons for this is because this sector is so broadly defined. It consists of finance, insurance, and real estate; transportation, communications, and public utilities; trade; services; and government. One could argue that government employment should not be included in this category. But even after government employment is taken out of the services-producing mix, the remainder still accounts for over 60% of all nonfarm jobs. The trade and services categories account for almost two-thirds of this sector's total employment. These two categories have benefited from current trends. One such trend is the increase in national retailers moving into the state. For example, trade employment has been boosted by the

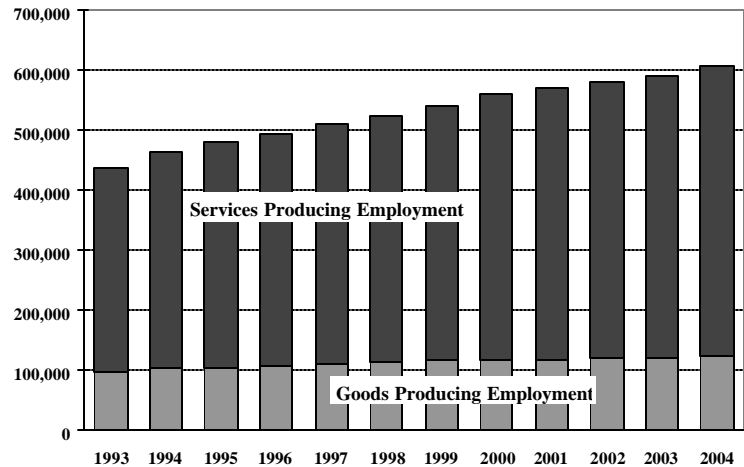
opening or expansion of several Wal-Mart, Fred Meyer, and Home Depot stores. Other trends support services employment. For example, it has benefited recently from the growth of call centers in the state. The call centers are involved with catalog sales, help lines, telemarketing, customer services, and market research. Call centers also encompass a wide variety of business activities. These include manufacturing, transportation, communications, trade, finance, insurance, business services, and research and development. One of the most pleasing aspects of this growth is

how diverse it has been. The GTE order-processing center is in North Idaho, the Carlson Leisure Group call center is in the Treasure Valley, and Convergys Call Center is in Bannock County. Recently, Alaska Air opened a call center in Boise that will employ 200. Tele-Servicing Innovations opened a call center in Burley. But growth is not just coming from new arrivals to the state. For example, Sears Boise Regional Credit Card Service Center announced that it is expanding its payroll by about 500 employees. Business services employment has expanded with the growing use of temporary employees. While many of these temporary employees perform traditional business services, many are employed at manufacturing firms. Although they perform manufacturing tasks, they are counted as business services employees. Overall, services-producing employment is projected to increase 2.0% in 2001, 1.8% in 2002, 2.3% in 2003, and 2.6% in 2004. In the previous forecast, services-producing employment was expected to rise 2.5% both this year and next year, 2.4% in 2003, and 2.2% in 2004. Because of the slower growth, this sector's employment level in 2004 is about 3,800 less than was forecast in January 2001.

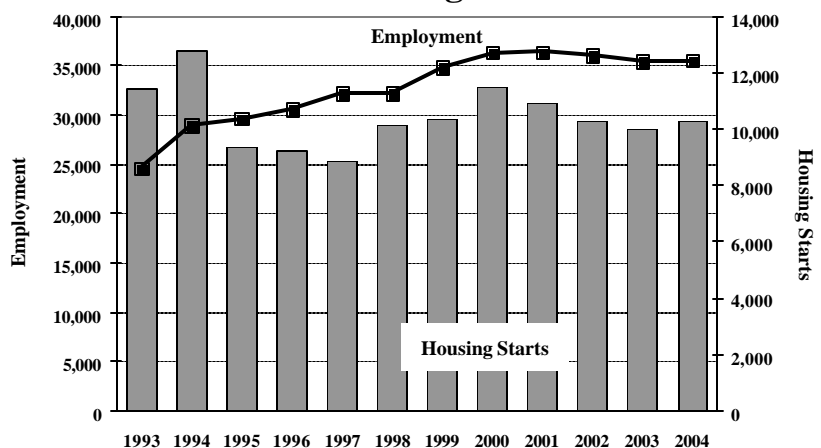
Construction: Idaho construction employment should remain relatively stable over the forecast period. This is a significant change from the recent past when this sector's employment usually grew faster than average. Idaho nonfarm employment growth averaged 4.3% from 1990 to 2000. Over this same period, Idaho construction grew 6.9% per year. The construction employment expansion began in 1988. Initially, nonresidential building fueled this sector's growth. However, as the trickle of net migration turned into a flood, residential construction employment surged. In 1988, the

number of Idaho housing starts was just 3,334 units. Six years later, in 1994, the number of housing starts had more than tripled to 12,766 units. From 1988 to 1994, the number of construction jobs in Idaho more than doubled from 14,205 to 28,983. Looked at another way, Idaho housing starts advanced

Idaho Nonfarm Employment



Idaho Construction Employment and Housing Starts



an incredible 25.1% annually over this period while employed increased a whopping 12.6% per year. The robust housing growth reflected the industry's attempt to catch up to demand. Fortunately, Idaho never developed a serious housing inventory overhang, making the transition from boom to slower times much less painful than usual for this notoriously cyclical industry. For example, housing starts dropped almost 27% from their high in 1994 to 1995. Despite this sharp decline, construction employment, thanks in large part to the strong nonresidential sector, managed to expand 2.2% that year. Idaho housing starts have averaged between 8,500 and 11,000 units per year since 1994. The current projection shows Idaho construction employment will level off at about 35,500 over the forecast period. From 2000 to 2004, Idaho housing starts are expected to slowly decline from 11,468 units to 10,273 units.